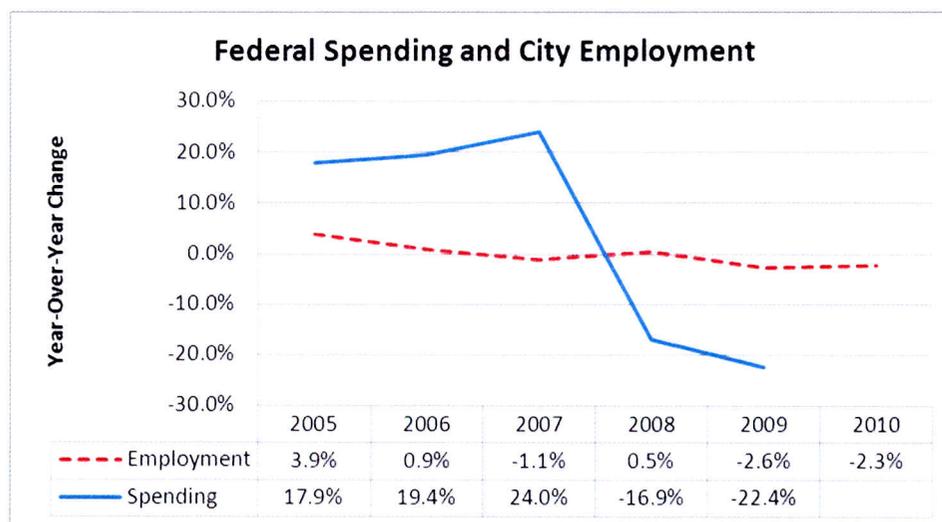


Historical Federal Spending Comparisons

The charts below provide comparisons between historical trends in federal spending as reported in the Consolidated Federal Funds Report¹ issued by the federal government and certain economic and budgetary indicators to show how the City may be affected by federal spending cuts in the future. Each indicator is affected by a distinct combination of federal spending types, so an explanation of each chart is provided. Please note that federal spending data is not yet available for federal FY 2010, but indicator information is given for that year since some indicators are lagging indicators. All federal spending numbers are based on the federal fiscal year (October 1 through September 30). Finally, please note that economic and revenue trends for the periods shown were affected by **both** federal spending changes and the nationwide recession.

City Employment

City employment can be affected by federal procurement contract spending (direct payments to City businesses and organizations), federal grants (to both public and private sector employers), and federal salaries and wages (reflecting federal employment in the City). The following chart compares the year-over-year change in these three types of spending combined to the annual average of City employment (based on the calendar year).



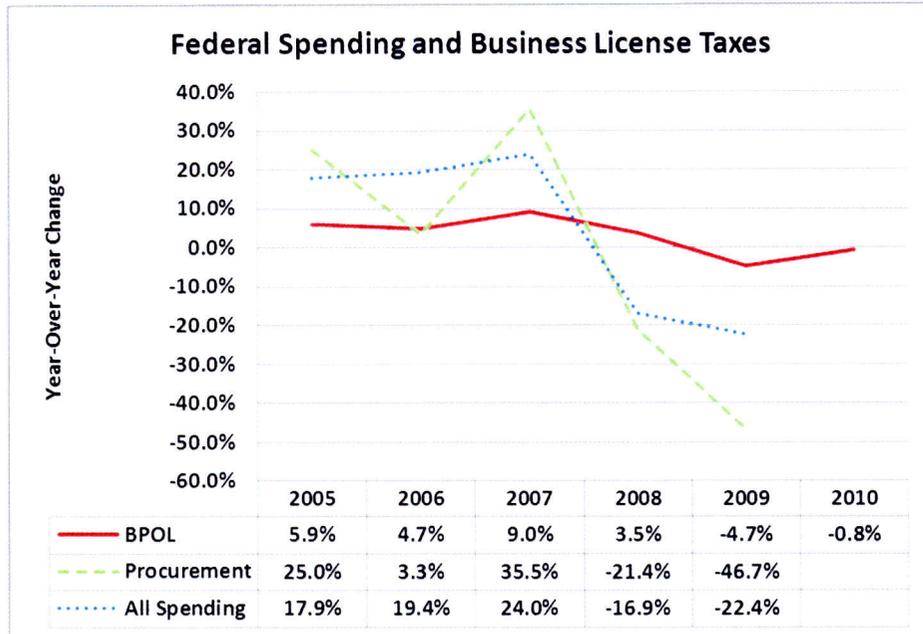
Sources: Consolidated Federal Funds Report; Virginia Employment Commission

Business License Taxes

Business license taxes, which are based on gross receipts, are affected in two separate ways. First, they are directly affected by federal procurement contract spending via direct payments to City businesses. (Federal grants go primarily toward research and development activities, public sector entities, and non-profit organizations, all of which are tax exempt, so grant payments do not directly affect taxable gross receipts.) Secondly, business license taxes are indirectly affected by the combination of federal contracts, grants, salaries and wages as contractors, grant recipients and federal employees contribute to City businesses' gross receipts as customers.

¹ This report breaks out federal spending (grants, contracts, federal wages and salaries, direct payments to individuals, etc.) by geographic area. This report is the best available data on the totality of the impact of federal spending on state and local areas.

Please note that the collections for each year are based on the gross receipts for the prior calendar year. So, for example, FY 2008 tax collections would have been affected by federal spending patterns in the last nine months of federal FY 2007 and the first three months of federal FY 2008.

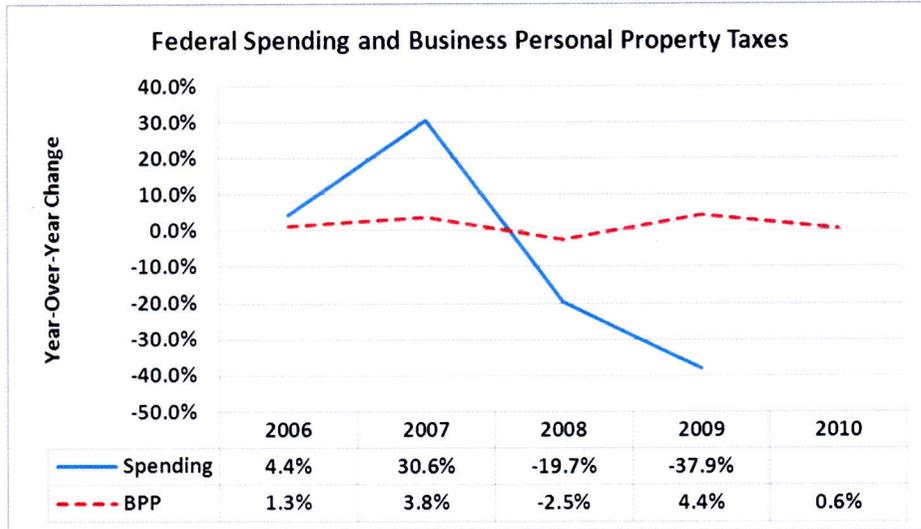


Sources: Federal Consolidated Funds Reports; Finance Department

Business Personal Property Taxes

Business personal property taxes, which are based on the assessed value of all tangible property located in the City and paid by both for-profit and not-for-profit private sector entities, are affected by federal contract spending and grants since recipient businesses and organizations' decisions to purchase new equipment, furniture, machinery, etc. may be based on actual or anticipated federal funding. (Unfortunately, it is not possible at this time to control for grants to tax exempt public sector entities, so the role of federal grants is exaggerated.) The affect is mostly limited to new purchases as existing business personal property depreciates on a set schedule.

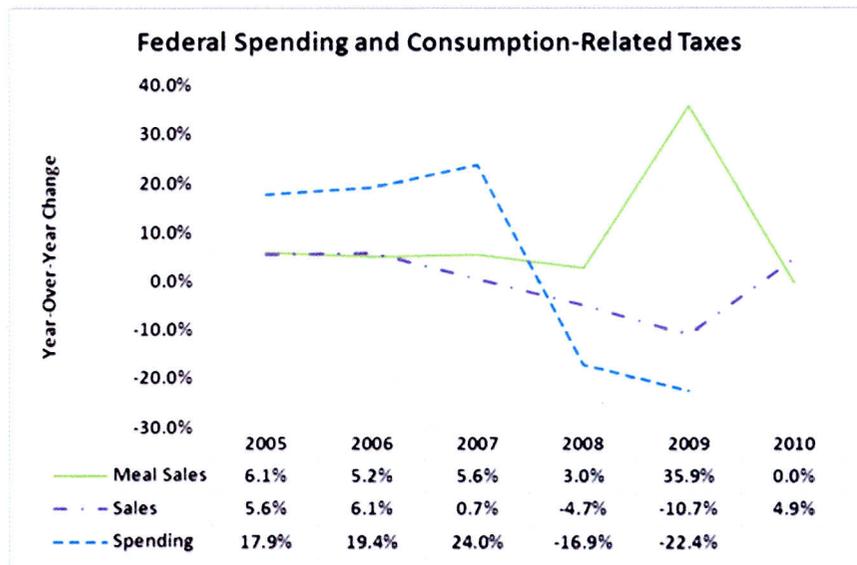
Please note that business personal property taxes are a lagging indicator. So, for example, tax receipts for FY 2009 are based on values as of January 1, 2008, and reflect business purchasing decisions in calendar year 2007.



Sources: Federal Consolidated Funds Reports; Finance Department

Consumption-Related Tax

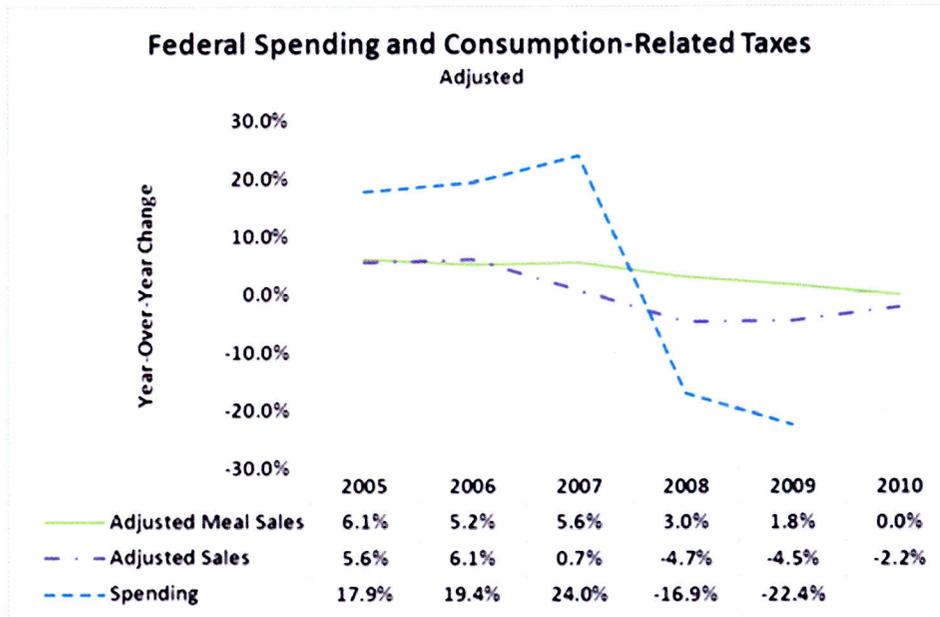
Consumption-related taxes, such as sales tax and meal sales tax, are the most likely to be immediately affected, both directly and indirectly, by changes in federal spending since they are collected on a day-to-day basis and reflect actual business conditions at the time of collection, rather than business activities of some prior period. Since federal contractors and their employees, grant recipients and their employees, and federal employees all patronize City businesses, all three types of federal spending have a role to play in consumption-related tax trends. The following chart shows the comparison between year-over-year changes in federal spending and year-over-year changes in sales and meal sales tax receipts.



Sources: Federal Consolidated Funds Reports; Finance Department

The increase in meal sales tax collections in 2009 reflects both an increase in the tax rate, which rose from three to four percent, and a spike in business activity related to the presidential inauguration. Most of the decline in 2009 sales tax collections was due to a one-time repayment of \$1.5 million to Fairfax County for businesses located in Fairfax County that had been erroneously remitting sales tax to the City. For

comparison's sake, in the chart below, meal sales tax changes have been adjusted to show what year-over-year changes would have been absent the rate increase and sales tax data for 2009 and 2010 have been adjusted to show what the year-over-year changes would have been absent that repayment.



Sources: Federal Consolidated Funds Reports; Finance Department